Scottish Police Authority

Management Report 2017/18

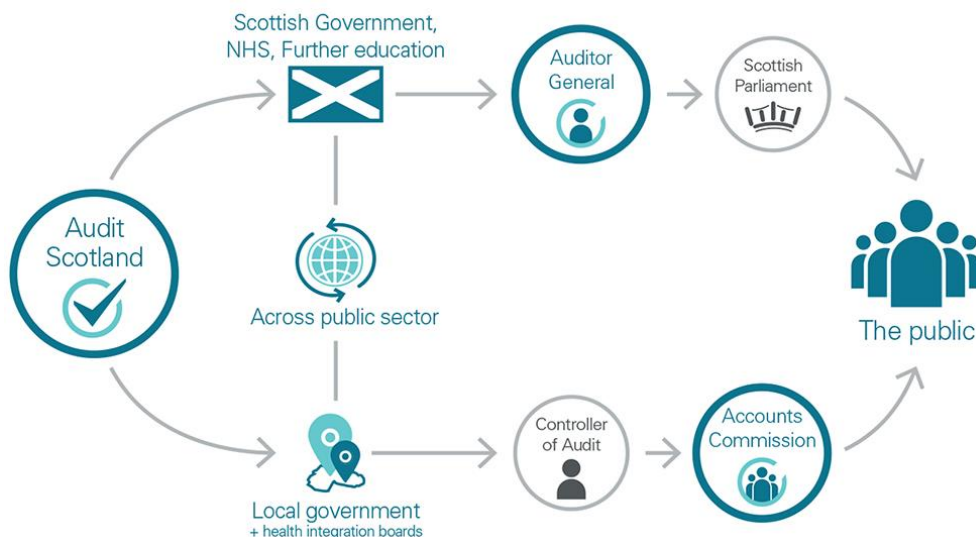AUDIT SCOTLAND

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.

- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.

- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non – executive board chair, and two non – executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.

About us

Our vision is to be a world – class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money

- reporting our findings and conclusions in public

- identifying risks, making clear and relevant recommendations.

Contents

Audit findings

Introduction

1. This report contains a summary of the key findings from our audit work at the Scottish Police Authority. Auditing standards require external auditors to obtain an understanding of the accounting and internal control systems that exist within the audited body to allow us to plan that audit and develop an effective audit approach for the annual accounts. They also require us to work closely with internal audit to make best use of the available resources and avoid duplication of effort.

2. This is reflected in our responsibilities under the *Code of Audit Practice* which requires us to gain assurance that the audited body:

- has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements

- has systems of internal control which provide an adequate means of preventing and detecting error, fraud or corruption

- complies with established policies, procedures, laws and regulations.

3. In addition, we carried out work on the audit dimensions, required by the Code of Audit Practice, which can be found in Exhibit 1. Further work on these areas will be included in our annual audit report.

Exhibit 1
Audit dimensions

Source: Code of Audit Practice 2016

Conclusion

4. Due to the control weaknesses identified in prior years, supported by internal audit reviews and our knowledge of the system changes required to establish a strengthened control environment, our planned audit approach was designed to ensure sufficient assurance could be obtained from substantive procedures. Despite this we undertook high level system evaluations to support our overall understanding and to enable us to identify and assess any controls that had already been strengthened and that could provide assurance. While we found that improvements have been made in the control environment during 2017/18, areas of weakness still exist. The findings from this work are summarised in Exhibit 2.

5. Our wider dimension audit work focused on financial management arrangements and in assessing the Police Scotland's progress in developing its ICT strategy. Audit work on both areas is ongoing, however we note the progress that has been made and will report our overall conclusions in our annual audit report which will be issued later in 2018, following the conclusion of the audit of the annual report and accounts.

6. Any weaknesses identified represent those that have come to our attention during our normal audit work and therefore are not necessarily all the weaknesses that may exist. It is the responsibility of management to decide on the extent of the internal control system appropriate to the Scottish Police Authority.

7. All our outputs and any matters of public interest will be published on our website: www.audit-scotland.gov.uk.

8. The contents of this report have been discussed with officers to confirm its factual accuracy. The co-operation and assistance we received during our audit is gratefully acknowledged.

Internal control systems and action plan

9. In accordance with *ISA330: the auditor's response to assessed risk*, our risk based audit approach allows us to take a three-year cyclical approach to controls testing. This approach enables us to place reliance on previous years' audit work once we have confirmed that the control environment and operation remain unchanged and no significant control weaknesses have been identified. Our 2017/18 testing covered key controls in areas including bank reconciliations, feeder system reconciliations, changes to supplier bank details, IT access controls and budget monitoring arrangements.

Bank reconciliations	Journals	Budget monitoring	IT access

10. Our audit approach did not include any controls assurance for payroll. In January 2017 internal audit published a review of payroll which identified weaknesses in the controls operating across the 8 payroll systems, with significant issues identified in the Glasgow control environment. The introduction of a single national payroll system is underway with full implementation expected in financial

year 2018/19, with the exception of Officers in Glasgow. Management have asserted that control improvements will be made to the system in place in Glasgow in this financial year. We will liaise with internal audit to ensure sufficient audit coverage of the new payroll system and control environment is completed in 2018/19.

11. In April 2018 internal audit published a review of general ledger controls. The report concluded that the control environment was operating effectively, however a significant weakness relating to a lack of segregation of duties in the processing and approval of journals was identified. Our high level audit work on the control environment highlighted the same weakness.

Exhibit 2
Key findings and action plan 2017/18

	Issue identified	Management response, responsible officer and target date	Additional audit procedures
1	**Authorisation of journals** As noted at paragraph 11 there are weaknesses in the authorisation controls for journals. **There is a risk that journals are being posted inappropriately and so increasing the risk of fraud and impacting on the accuracy of the annual accounts. Following concerns identified in last year's audit about weaknesses in controls over journals, additional measures were put in place to ensure retrospective review of all journals, however best practice is for approval to be provided in advance of posting a journal.**	In response to **external audit** report management gave the following actions: Actions were taken to address the issue raised in 2016/17 through the introduction of management approval of all posted journals on a monthly basis. Following further input from internal audit, an additional control was implemented in July 2018 to ensure that all journals are approved in advance of being posted to the general ledger. The relevant approver is identified based on the value of the journal, and the level of risk associated with the journal.	We will extend our testing of journals to ensure they are supported by appropriate evidence and correctly processed. As part of our 2018/19 interim work we will assess whether these actions have been implemented and adequately address the weaknesses in the control environment.
2	**System access** Audit testing completed in April 2018 identified that a senior member of the finance team who left the organisation in December 2016 was still listed as having access to the online banking system. **There was therefore a prolonged risk of unauthorised access to the system with the potential for fraud or error to have occurred.**	Agreed and rectified in this instance by removing the individual's access. There are compensating controls in place in that the bank card and card reader required to process any banking transactions were removed from the individual prior to their leaving the organisation; and for the majority of transactions, dual authorisation is required. A review of all those with access to online banking and other financial systems is underway to ensure there are no other anomalies. A clear process will	We will seek assurances that the arrangements in place for managing leavers are adequate. As part of our 2018/19 interim audit work we will carry out testing to ensure that access to systems is strictly limited to authorised employees. We will select a sample of transactions and ensure these are valid.

Issue identified	Management response, responsible officer and target date	Additional audit procedures
	be implemented to remove access to all finance systems for any individual leaving the organisation. Finance Transactions Lead January 2019	
3 Approval of sales invoice requests A new sales invoice authorised signatory list is being developed, however audit testing identified that invoices are still being raised and approved by the same individual. There therefore remains a lack of segregation of duties in this area and a reduction in the quality of the internal control environment. **There is a risk that sales invoices are inappropriately raised.**	Agreed. There is a form which currently exists to capture customer details. Additional controls will be implemented to ensure that the finance colleague raising the invoice confirms that the individual requesting the sales invoice has the necessary authority. Finance Transactions Lead January 2019	We will extend our testing of income transactions to ensure these are valid and correctly accounted for.
4 Reconciliations From a sample of accounts payable to general ledger reconciliations, audit testing identified one case where the reconciliation was not prepared until 4 months after the period end. In addition, during 2017/18 the documentation supporting the accounts payable reconciliation was changed. From period 9 onwards, the purchase ledger control account document was no longer used. A replacement was not introduced and evidence provided to us to support management checks was limited to an e-mail trail between the staff involved. **Timely and complete reconciliations, in a recognised format are a key part of an internal control environment. There is a risk that reconciling items are not properly identified or investigated in a timely manner, increasing the risk of frauds or errors.**	Agreed. Improved control trackers in relation to reconciliations will be introduced for key accounts. Statutory Reporting Lead December 2018	We will review the year end reconciliation and extend our testing of expenditure transactions to ensure these are correctly accounted for.

Source: Audit Scotland

Early financial statements testing

12. To support the delivery of the financial statements audit we commenced early audit testing of income and expenditure transactions. Our expenditure testing included a focus on the award of contracts for consultancy and professional services. The number and value of contracts has increased recently as the SPA and Police Scotland have accessed external support and advice to help progress their transformational change programme. External services have also been sourced to help deliver some business as usual activities, such as in the finance department. We comment further on this at paragraph 19. There are risks associated with this both in terms of the burden on the existing procurement function and on business areas which are responsible for the production of detailed business cases and the monitoring of large projects.

13. We reviewed a sample of large value contracts, the accompanying business cases and the documentation relating to the approval process. As part of our financial statements audit work we will assess the classification and accounting for this expenditure to ensure it is accurately reported in the accounts. We will record our judgements in our annual audit report.

14. We tested a sample of exit packages, for staff who left the employment of the SPA and Police Scotland during 2017/18, to ensure that they are supported by business cases and appropriate approval arrangements as required by the Scottish Public Finance Manual. We found no issues with the governance arrangements around the award of exit packages. Further audit work will be undertaken to ensure they are correctly presented in the annual report and accounts.

Financial management

15. In September 2017 a three year financial plan was approved by the Scottish Police Authority Board. This document represents an important stage in achieving financial balance and sustainability in the longer term as it looks to bring the Scottish Police Authority's budget into balance, on a recurring basis, by the end of 2020/21.

16. The 2017/18 revenue budget was set with an operating deficit of £47.2 million. Budgets for capital and reform were balanced. Exhibit 3 below shows the projected outturn against this budget during the year. At the year end the revenue position was overspent by £35.2m which represents an underspend of £12 million against budget, however much of this was due to non recurring savings. Capital was lower than budget by £8.4 million. Reform spending of £49.6 million was underspent by £5.2 million against the amount made available from Scottish Government of £59.5 million.

17. A new framework for reporting the quarterly budget position to the Finance Committee and Board was implemented during 2017. The monthly and quarterly budget monitoring reports now clearly distinguish the Scottish Government funding by the separate sources; revenue, capital and reform. This has resulted in improved transparency and supports greater scrutiny of spending and the achievement of efficiency savings.

18. The three year financial plan was revised, and approved by the Board, in May 2018 as part of the 2018/19 budget setting process. The Chief Finance Officer recognises the importance of reviewing and updating the plan annually to reflect the progress on transformation projects and to include changes in the initial underlying assumptions and estimates.

19. Previous Section 22 by the Auditor General for Scotland and annual audit reports highlighted issues relating to the capacity and capability of the finance team. We reported in our 2016/17 annual audit report that the finance team had been supported by significant temporary resource which had made a positive contribution but that it was important that this was sustained over the longer term.

A Finance Service Improvement Plan has been developed as part of the wider Finance Stabilisation and Transformation Plan, which has identified the additional skills and resources required to enable the necessary transformation of the service to take place to achieve the objectives of Policing 2026. This has already resulted in positive changes to the accounts preparation process.

Exhibit 3
Reporting of projected outturn position
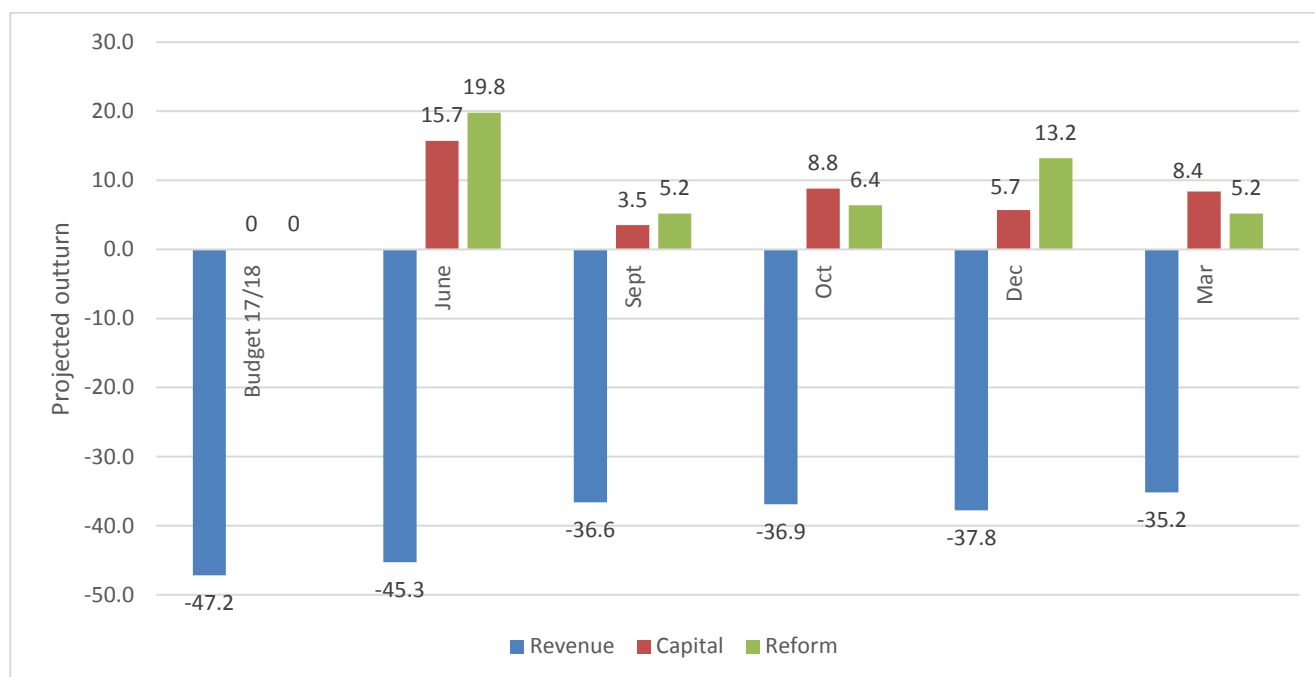
Source: Budget Monitoring Reports

Financial sustainability

20. In September 2017 the Board approved a 10 year Financial Strategy which underpins the Policing 2026 strategy for the long term future of policing in Scotland. The underlying corporate strategies for Fleet, Estates, ICT and Workforce are all currently at different stages of development, therefore the 2018/19 budget is based on various assumptions and estimates. It is essential that these strategies are completed, and the financial strategies reviewed and updated if the two organisations are going to achieve a balanced budget by 2020/21 and then address the longer-term deficits forecast in the ten-year financial strategy.

ICT Strategy

21. During 2018 Police Scotland prepared, with the assistance of consultants, a Digital, Data and ICT Strategy. The strategy sets out how information technology will be used to support the Policing 2026 strategy and envisages an ambitious transition plan over the next 4 -5 years which requires an estimated capital budget of £200 million to enable delivery. SPA and Police Scotland are working on the assumption that the Scottish Government will provide the capital funding required, but this has not yet been confirmed. There remains a risk that until funding is agreed, the scale and timing of ICT investment and wider transformation is uncertain.

22. In addition to the unresolved funding issue, there are other challenges in implementing the strategy. The governance arrangements required, in what is an innovative and highly technical approach involving data science, will require a change in skills and mindset. Staff capability and capacity to implement and support new technologies is also a key area and the implementation of the digital strategy will require significant business and cultural change. Police Scotland also needs to ensure its digital developments are compatible with external stakeholder needs, for example the development of digital presentation of evidence in court by the Crown Office and Procurator Fiscal Service which is currently being trialled.

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